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Contribution of Agency Banking Services to Financial Performance of Commercial Banks in Kisumu City (A Case of Equity Bank)

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Abstract: Agency banking is the business carried out by an agent on behalf of an institution as permitted by the banking act in 2010. Through agency banking, banks have been able to recruit other businesses with a nationwide footprint to offer banking services on their behalf, allowing them to have branches in areas that were not previously commercially viable. This study sought to establish the contribution of agency banking services to financial performance of commercial banks in Kisumu City; A case of Equity bank. The study was guided by the following objectives: to establish the contribution of withdrawal of cash through agents financial performance of Equity banks in Kisumu County; to analyze the contribution of deposits of cash through agents on financial performance of Equity banks in Kisumu City; to establish the contribution of fund transfers from one account to another through agents on financial performance of Equity banks in Kisumu City. The study was anchored on financial intermediation theory and it adopted a descriptive research design which involves quantitative technique. The population size was equity bank managers and banking agents in Kisumu City. Sample size was selected using cluster followed by random sampling where the 56 banking agents and 4 managers were the respondents. Data was collected using questionnaire and analyzed data using frequency distribution, percentages, and SPSS helped in multiple regressions. The study found that cash withdrawal, cash deposit and cash transfer as agency banking services contributed to banks performance and the influence was statistically positively significant on bank performance. The study recommends that more banks should implement agency banking helping them to tap into more deposits and withdrawal eventually increasing financial performance. Bank management should initiate training sessions for their agents to equip them with financial skills needed to run the agents effectively. Security enhances operations of agents; the study recommends that the government of Kenya should thus improve security to enhance operation of the agents' bank.

Keywords: Cash withdrawal, Cash deposit, Cash transfer and Bank Financial performance.

INTRODUCTION

Technological advancement has not only affected the way of living but has had an effect on the way people do their banking. This has made it easier for banking agents to come into the picture [1]. According to [2] there is a global concern to entrench financial access to previously ignored areas hence the emergence of agency banking. This has been adopted in several countries around the world. Brazil being the first in 1999, Columbia and Pure have been declared to be the countries with the highest number of banking agents. Agency banking was first introduced in Brazil in 1999 making it the pioneer. In 2010 approximately 170000 agents had been put in place in 5500 municipalities. This led to opening of 12million accounts through agents in last three years. Brazil has demonstrated to other countries that rules and regulations allow banks to contract an agent. This has helped the unbanked in Brazil especially in rural areas and is being replicated in other countries. Agent networks in Peru are concentrated in urban areas with an aim to reduce congestion in banks pushing low value transactions away from costly branches. This has made the agents to be located within a block or two from the same bank [3].

A study by [4] stated that the South African regulatory framework from the Banks Act allows a bank to contract agents to receive deposits, money due to it, applications for loans or advances, or to make payments to such clients on its behalf. Central Bank of Kenya [4] reported that Kenya adopted agency banking in 2010 and it has grown to have more than 10,000 banking agents over the years with affiliation to commercial banks. The banking Act was amended through the Finance Act of the year 2010. The new law was to allow commercial banks to contract agents to offer financial services to the unbanked population. Central Bank of Kenya (CBK) issued guidelines for agency banking which allowed banks to start recruiting retailers as agents. This banking act in 2010 made it legal for banking agents to be used in Kenya as at June 2012 [4]. Kumar [2]. History indicates that performance measures is a structured system and process of gathering ,monitoring, and assessing information related to business activities in order to achieve the goals and the objectives. The goals mostly revolve around profit maximization and shareholders wealth maximization.

EMPIRICAL REVIEW

This section looks at the studies that have been carried out in the field of agency banking and bank performance.

Agency banking and bank performance

Benazir [5]. Conducted a study on impact of agency banking to the development of SMEs sector a case of Bangladesh. The analysis of data showed that increasing volume of agency services has increased profit of banks since each transactions is charged an amount which is also helping to develop their financial sector. Daniel, juan, lizbeth, [6] carried out a discussion paper on agency banking in Latin America.. Findings of the study show that Mexico has had a successful first year implementing agent banking. Findings also showed that Brazil, Colombia, and Peru have demonstrated that agent banking had significant potential to increase access to financial services throughout even the most remote areas. According to Haziq B [7] on the impact of branchless banking to business performance a case study at Bank SimpananNasional, The study, revealed that branchless banking, have positively co-related with the business performance. As business performance was measured in terms of overall profits during the time.

Mwangi, Kihonge, Kiboga, Kibachia, [8] carried out a study on the effect of agency banking on financial performance of commercial banks in Rwanda. The study revealed that low transaction cost through agency banking had a positive impact on the financial performance of commercial banks in Rwanda. The findings also show that the move by the central bank to regulate agency banking had a positive influence on the financial performance of commercial banks in Rwanda. The study revealed that financial services accessibility by customers through baking agencies had a positive impact on financial performance of commercial banks in Rwanda.

Previous research by Wawira [9] conducted on the contribution of agency banking on financial performance of commercial banks in Kenya. The study revealed that if the central bank will have more favorable regulation on agency banking there would be a positive influence on the financial performance of commercial banks in Kenya. Dianga [10] conducted a study on effect of agency banking on financial performance of commercial banks in Kenya. The findings of the study revealed that there was a positive relationship between financial performance of commercial banks as measured by ROE and total assets.

Wangari[11] studied “effect of agency banking on financial performance of small and medium size enterprises in Nairobi county.” The researcher says that not spending enough on security makes it difficult for agency banking to handle big financial transaction making it to perform poorly. The study findings showed that agency banking has led to financial inclusion of small SMEs and has significant positive weak relationship with financial performance of SMEs in Nairobi County.

Cash withdrawal

Achilleas [12] conducted a study on forecasting cash money withdrawals using wavelet neural networks. The researchers findings showed that the wavelet network can successfully capture different periodicals with prediction will change in direction of money withdrawals. The findings also revealed that linear approach which was found to be inappropriate for predicting cash withdrawal was outperformed by wavelet network framework. Arhin [13] conducted a study on Using ATMS as workload relievers for Ghanaian bank tellers, the customer behavioral challenge Showed that the customers would prefer to go to the bank hall to do their withdrawal that use the ATM. A study by [14] on the impact of mobile phone-based money transfer services in agriculture: Evidence from Kenya. The findings of the study shows that use of mobile phones money transfer services is being used by households has increase. The researcher further found that mobile money transfer has helped in access to financial services and resolved market failure. Hannington, 2013 conducted a study on the effect of electronic banking on the financial performance of commercial banks in Kenya. The study methodology was descriptive research design. The findings of the study reveal that e banking has a strong effect on financial performance of commercial banks in Kenya.

Cash transfer

Samahir [15] conducted a research on legal risk association with electronic funds transfer. The researcher says legal issues have consequences with regard to Electronic Fund Transfers (EFTs) which are used to transfer money around the world. Philip [16] doing a study on an assessment of factors affecting electronic money transfer in banking industry: a case of bank of Tanzania Mwanza. The researcher found that standardization, advancing in technology and providing training to BOT workers and customers. The study indicated maintaining safety and efficiency of e-money transfer system was paramount. Ageng'a [17] Computerized fund transfer system and cash management at Kisumu East District Treasury. The results from the study indicated that CFTs has led to increased security and privacy, cost reduction, time saving and productivity. The study also showed a there exist a relationship between computerized fund transfer system and cash management.

Njogu [18] evaluated the effect of internet banking (fundtransfers) on customer deposits in commercial banks in Kenya. The findings of the study showed that the overall regression model was statistically significant showing a positive relationship between customers' deposits and internet banking. This was explained by money borrowed, number of transactions, amount of money transfers and customer deposits levels.

Cash deposits

McCadd, [19] carried out a study on commercial banks branching, deposit depth and state economic growth. The researcher tested the hypothesis that commercial bank branching and commercial bank deposits both positively impact state economic growth. The findings also showed there is a positive correlation between proliferation of commercial bank branches and states GDP with substantial but less than unit. Marquez *et al.* [20] conducted a study on deposits and bank capital structure. The study finding shows that equity capital earns a higher expected return than direct investment in risky assets. The findings also show that there is a role for capital regulation when deposits are insured and banks may not be able to use capital when they lend to firms.

Kariuki [21] conducted a study on the effect of electronic banking on growth of customer's deposits of microfinance banks in Kenya. The study says the Kenya banking sector provides a wide range of products to increase financial services where low income customers can borrow loans through mobile banking channel through Mshwari. Njilu [22] examined the effect of electronic banking on liquidity of commercial banks in Kenya. The findings of the study showed that liquidity and electronic banking were strongly positively correlated at 95% confidence level. The findings further showed that ATM banking has the highest effect on liquidity than Internet banking. Mboya [23] examined the effect of level of deposits on financial performance of commercial banks in Kenya. The researcher says profitability of the bank has been on the rise with increase in deposits.The findings of the study indicated that ROE and deposit ratio were positively related. The researcher also found out that commercial banks investment in more low cost deposits attracted more customers and reduced costs associated with other forms of deposit mobilization

STATEMENT OF THE PROBLEM

Various banks in Kenya and abroad have implemented agency banking with a hope of reaching the individuals and small scale businesses access banking services without having them visit the banking halls. According to Njuguna [4] generally commercial banks found it necessary to incorporate agency banking in order to make available formal financial services to majority of unbanked populations [24]. Indicated that equity agent is a commercial entity that has been contracted by equity bank and approved by the central bank of Kenya to provide specific services on behalf of the bank. Banking agents function is to advocate for savings by reducing costs and minimizing credit risk [25]. A study conducted by Kamau[26] on the relationship between agency banking and financial performance of banks in Kenya used regression analysis gave a negative and weak correlation between withdrawal transaction through agents, number of agents and deposits and banks financial performance as measured by Return on Equity. Wawira, [9] carried out a study on the effect of agency banking on financial performance of commercial banks in Kenya. Revealed that if the central bank will have more favorable interest rates and regulation on agency banking there would be a positive influence on the financial performance of commercial banks in Kenya. However, on deposits and withdrawals, the amount transacted is restricted by the 'float' accorded to the agent. Thus, low volume transactions are conducted at the agency banks. It's on this background of mixed reactions on the influence of agency banking on bank performance, The methodology used by certain scholars was causal research design, cross sectional research design other used census survey while they should have used descriptive research design. Some researchers used secondary data from central bank audits and did not involve primary data collection to know the real situation in the banks involved thus the researcher undertook the study to establish the contribution of agency banking services on financial performance of commercial banks. a case of Equity bank

RESEARCH QUESTIONS

- What is the contribution of withdrawal of cash through banking agents on financial performance of Equity banks in Kisumu City?
- What is the contribution of deposits of cash through banking agents on financial performance of Equity banks in Kisumu City?
- Does fund transfer from one accountto another through banking agentscontribute to financial performance of Equity banks in Kisumu City?

CONCEPTUAL FRAMEWORK

According to Mugenda [27], a conceptual framework is a hypothesized model portraying the relationship between variables graphically or diagrammatically. In this study, there are three variables that is, agency banking being the independent variable focusing on withdrawal of cash, deposits of cash and transfer of funds While financial performance being the dependent variable.

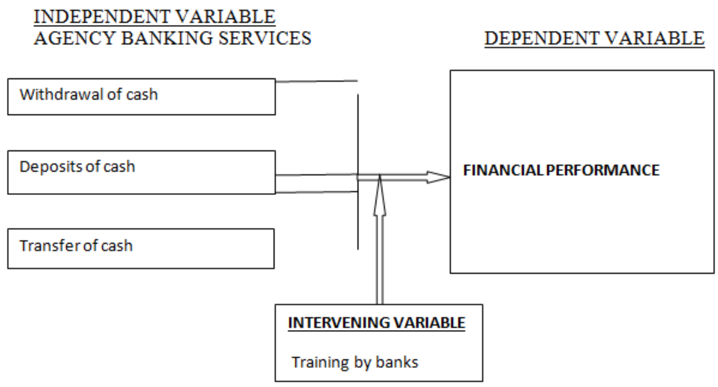

Fig-1: Conceptual Framework

Source: Researcher, (2017)

METHODOLOGY

The researcher adopted descriptive design. Basically this design is known to answer descriptive questions and observation of behavior of a subject without influencing it in any way. It is designed to gain more information about variables within a particular field of study [28].

Target Population

A population is a well-defined set of people, service, element, events and group of things or households that are being investigated [29]. The population of this study was Equity banks managers and banking agents in Kisumu City [30].

Description of Sample and Sampling Procedures

The study targeted Equity banks operations managers and agency its banking agents in Kisumu City. The 5 managers were key informant with great emphasis on their performance from the time they started providing agency banking services. The researcher used random sampling to select from a target population of 82. The sample size employed for identification of target population was scientifically computed as recommended by Fisher *et al,* and a sample size for the study of 60 respondents as illustrated in the table below was arrived at.

Table-1: The sample size employed for identification of target population

Target group	Target population	Sampling procedure	Sample size
Bank managers	5	5/90*65.4	4
Equity agents	77	65/90*65.4	56
Total	82	Random	60

Source: researcher 2017

Description of research instruments

The researcher collected data using semi structured questionnaires because of its applicability to research problems and size of population. Pre-testing was conducted to assist in determining accuracy, clarity and suitability of the research instrument. The reliability was ensured by testing the instruments that was to be used in the research.

Description of data collection procedures

The semi structured questionnaires were issued to the respondents who are equity agents and bank managers using drop and pick later method.

Data Analysis Procedures

Data was coded and analyzed using descriptive statistics. SPSS software helped in multiple regression analysis which was used to determine the relation between agency banking and financial performance of Equity banks using performance indicators. A Multiple Regression equation similar to Gupta and Gupta [31] was used. The equation that represented the algebraic expression of the analytic model applied was as follows.

$Y= \alpha+\beta_1 X_1+ \beta_2 X_2+ \beta_3 X_3+ \varkappa$

Where Y=Financial performance measure.

α =Regression constant

X_1= the level of Cash withdrawal via agents

X_2= the level of Cash Deposits via agents

X3= the level of Cash Transfer via agents
β1 = Regression coefficients of the level of Cash withdrawal via agents to perfomance
β2 = Regression coefficients of the level of Cash Deposits via agents to performance
β3 = Regression coefficients of the level of Cash Transfer via agents to performance
ɥ = error term

FINDINGS

This section presents the findings of the contribution agency banking services on financial performance of commercial banks

Cash withdrawal through agency banking and financial performance of banks

The study sought to examine the contribution of cash withdrawal through agency banking on financial performance of commercial banks.

Table-2: Cash withdrawal through agency banking and financial performance of banks

Statement Code		SA 5	A 4	U 3	D 2	SD 1	MEAN	%MEAN
Business client cash withdrawal limit per day influences bank financial performance	F %	6 10%	19 31.7%	19 31.7%		17 26.7%	2.98	12.5%
Individual clients cash withdrawal limit per day influences bank financial performance	F %	15 25%	45 75%				4.25	17.9%
Ease and convenience of cash withdrawal from agents affect financial performance	F %	32 53.3%	10 16.7%		8 13.35%	10 16.7%	3.77	15.9%
The speed of cash withdrawals in a day has grown hence in financial performance bank	F %	60 100%					5.00	21.1%
Cash withdrawal charges have not influenced negatively financial performance.	F %	17 28.3%	9 15%		34 56.7%		3.15	13.3%
Number of cash withdrawals in a day has increased hence financial performance.	F %	31 51.7%	29 48.3%				4.52	19.1%
Mean							3.945	

The study findings on contribution of cash withdrawal on financial performance of banks showed that the respondent were of the view that all factors of cash withdrawal limit per day influenced bank financial performance (mean=3.945) the outcome from the statistics is consistent with earlier studies by Harris and Raviv [32]. They all argued that larger volume of transactions leads to improved financial performance. Respondents seems to strongly agree that the speed of cash withdrawals in a day has grown hence increase financial performance bank as reflected by a mean of 5.00 with a maximum point of 5. However, significant standard deviations of 0.00 indicate no varied response. This was the most important influence of agency banking on bank performance. The least important was that Business client cash withdrawal limit per day influences bank financial performance.

Cash deposits through agency banking and financial performance of banks

The study sought to examine the contribution of cash deposit through agency banking on financial performance of commercial banks.

Table-3: Cash deposits through agency banking and financial performance of banks

Statement Code		SA 5	A 4	U 3	D 2	SD 1	MEAN	%MEAN
Convenience in terms of distance from the agents influences financial performance.	F %	19 31.7%	41 68.3%				4.32	18%
Speed of deposit increases the number of agent outlets by the bank	F %	35 58.3%	25 41.7%				4.58	19%
Individual clients cash deposit in small denominations per day influences bank financial performance	F %	26 43.3%	16 26.7%		18 30.0%		3.83	16%
Safety when depositing cash using agency banking affect financial performance positively.	F %	42 70.0%	18 30.0%				4.70	19.6%
cash deposit in large denominations per day influences bank financial performance	F %	10 16.7%	32 53.3%		18 30.0%		3.57	14.3%
Ease of cash deposits at agent positively affects financial performance.	F %	32 53.3%	10 16.7%	18 30.0%			3.39	14.%
Total mean							4.065	

The study findings on cash deposits showed a total mean of 4.065 indicating that the respondents strongly agreed of the view that cash depositing influences bank financial performance;

Cash transfer through agency banking and financial performance of the commercial bank

The study sought to examine the contribution of cash transfer through agency banking on financial performance of commercial banks.

Table-4: Cash transfer through agency banking and financial performance of the commercial bank

Statement		SA	A	U	D	SD	MEAN	%MEAN
Individual clients' cash transfer per day influences bank financial performance.	F %	18 30%	33 55%	9 15%			4.15	18%
Fees charged on transfer of funds from one account to another positively affect financial performance.	F %		18 30%	42 70%			3.30	14.3%
Business cash transfer per day influences bank financial performance.	F %		51 85%	9 15%			3.85	16.7%
Safety when transferring cash using agency banking affect financial performance positively.	F %	28 46.7%	32 53.3%				4.47	19%
Ease cash transfers from one account to another affect the banks financially.	F %		33 55%	9 15%	18 30%		3.25	14%
Speed of cash transfers has increased the financial growth of the bank.	F %		6 10%	54 90%			4.10	17.8%
Total mean							3.853	

The study findings on cash transfer showed that the respondents agreed in general transferring cash using agency banking affect financial performance positively (3.853) with a majority opinion (19%) that Safety when transferring cash using agency banking affect financial performance positively. A least popular opinion was that Ease cash transfers from one account to another affect the banks financially. This indicates that speed of transfers of funds from one account to another is not really related to financial performance of the bank. This study is in consonance with Wairi [33] noted that third party retail agents presents several risk factors with regard to effective supervision of banks. The findings are also in line with the finding is in line with Kithuka [34] who sought to establish the factors influencing growth of agency banking in Kenya. The study established that convenience of the money transfer technology plus its accessibility, security and cost use of agency banking.

Agency banking and financial performance of banks

The study sought to examine the contribution of agency banking on financial performance of commercial banks.

Table-5: Agency banking and financial performance of banks

Statement		SA	A	U	D	SD	MEAN	%MEAN
Privacy and security in cash transfers affect number of agent outlets of the bank	F %	35 58.3%	25 41.7%				4.58	20.8%
Affordability of maintaining an account with the bank affect its financial performance	F %	27 45%	33 55%				4.45	20.2%
Cost involved in agency banking when withdrawing is lower compared to bank hall which in long run increase financial performance	F %	17 28.3%	25 41.7%			18 30%	3.38	15.4%
Financial performance of the banks has increased since the adoption of agency banking	F %	36 60%	24 40%				4.60	20.9%
The volume of transaction per unit time has increased this year compared to the last financial year indicating the growth of the bank.	F %	31 51.7%	28 48.3%				4.52	20.5%
Total mean							3.588	

The findings showed a general opinion of agreement (3.588) increased financial performance resulted as of agency banking. With a majority (20.9%) opinion that financial performance of the banks has increased since the adoption of agency banking. The findings are in agreement with the findings of [4] which revealed a strong positive correlation coefficient between number of agents, cash transfer, cash deposits, and cash withdraws and financial performance through return on assets. Agency banking lead to large number of banks transactions being facilitated by them like increase in payment of bills from one account to another, mini statement requests, cash deposits and withdrawal which affected financial performance positively. This study finding is in line with Mwangi [35] who evaluated the role of agency banking in the performance of commercial banks in Kenya. This study also concurs with Ivatury and Mas [1] established that agency banking leads to cost minimization by reducing maintenance cost of banks fixed assets such as buildings and cost of service delivery.

Regression Analysis

Table-5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.457[a]	.209	-.111	.501

Source: research data (2017)

- Predictors: (constant) agency banking services i.e cash withdrawal, cash deposits and cash transfer
- Dependent variable: financial performance of bank

From the table 5 it is evident that R squared is 20.9% implying 20.9% variations in bank performance are explained by agency banking (cash withdrawal, cash deposit and cash transfer) and the rest by other factors not captured by the study

Table-6:ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.787	17	.164	.653	.011[b]
	Residual	10.546	42	.251		
	Total	13.333	59			

A; Predictors: (constant) agency banking services i.e cash withdrawal, cash deposits and cash transfer
B; Dependent variable: financial performance of bank

Source: research data (2017)

The F-statistics indicated (F=0.653) which was significant at 5 per cent level (Sig. F<0.05) confirming the fitness of the model and there is statistically significant differences of the contributions of cash withdrawal, cash deposit and cash transfer on financial performance of bank

Table-7: Unstandardized Coef. Standardize Coefficient

Model	B	Std. Error	Beta	T	Sig.
Constant	3.718	2.89		1.244	0.022
X1 (cash withdrawal)	0.237	0.511	0.308	1.702	0.009
X2 (cash deposit)	0.059	0.735	0.116	0.9	0.036
X3 (cash transfer)	0.155	1.015	0.120	0.891	0.033

- Predictors: (constant) agency banking services i.e cash withdrawal, cash deposits and cash transfer
- Dependent variable: financial performance of bank

$$\boxed{Y= 3.718+ 0.237X_1 + 0.059X_2+ 0.155X_3}$$

Source: research data (2017)

From the above regression equation it was revealed that cash withdrawal, cash deposit and cash transfer at zero, financial performance of commercial bank(Equity) would be at 3.718, a unit increase in cash withdrawal would lead to increase in financial performance of equity bank by a factor of 0.237, a unit increase in cash deposit would lead to increase in financial performance of equity bank by 0.059, further unit increase in cash transfer would lead to increase in financial performance of equity bank 0.155. The p-value was found to be less than 0.05 showing that cash withdrawal, cash deposits and cash transfer statistically significantly affect the financial performance of commercial bank (Equity bank). Mwangi, Kihonge, Kiboga, Kibachia, [8] the study revealed that low transaction cost through agency banking had a positive impact on the financial performance of commercial banks in Rwanda for which this current study confirms.

SUMMARY

On the first research question it's clear that majority at the greatest contributor to financial performance is The speed of cash withdrawals in a day while the least was Business client cash withdrawal limit per day and in general a very strong agree opinion on the contribution of cash withdrawal on bank financial performance. Based on the second research question, it clearly shows that majority at strongly agreed that Safety when depositing cash using agency banking affect financial performance positively as the greatest contributor of influences financial performance the least contributor being Ease of cash deposits at agent point and in general the respondents strongly agree Cash deposits positively affects financial performance. Based on the third research question it is evident that Safety when depositing cash using agency banking as affecting financial performance positively was the greatest contributor with the least contributor being Ease cash transfers from one account to another. In general the respondents agreed that cash transfer influenced bank performance.

Among the three agencies banking services under consideration Cash deposits had the greatest contribution on bank performance followed by Cash withdrawal and lastly cash transfer. These results from descriptive analysis do not agree with regression analysis where cash deposit has the greatest positive influence followed by cash withdrawal and lastly cash transfer. In terms of statistical significance cash deposit is the most significant followed by cash transfer and lastly cash withdrawal probably because cash deposit is perceived as more riskier than cash transfer and cash withdrawal.

CONCLUSION

Based on the first research questions all the three variables of agency banking cash withdrawal, cash transfer and cash deposit statistically significantly positively influenced bank performance even though they could only account for only 20.9% variations of bank performance. There are however mixed results as to rank of importance on the contribution to performance when using descriptive and regression analysis. It's good the most statistical significant agency service as to influencing performance is cash deposit.

RECOMMENDATIONS

From the findings and conclusions above, the study established that agency banking positively affects the financial performance of commercial banks and it expands banks market share. More banks should implement agency banking and penetrate to remote areas for more financial inclusion to be realized and to make it easy for all customers to access financial services with ease. This will also help banks to tap into more deposits and withdrawal eventually increasing financial performance. Those that have already adopted agency banking should improve their technology to make it more advanced as speed of transaction was found to be the most important influence of agency banking on bank performance.

Suggestions for Further Studies

This study concentrated on agency banking in Kenya and how it affects financial performance of commercial banks. This study therefore proposes that future studies be conducted on the following: The influence of Bank management on agency banking performance. A study can also be done on the role of the government or regulatory framework in supporting the adoption of agency banking and the impact of agency banking to the financial sector deepening and financial inclusion

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